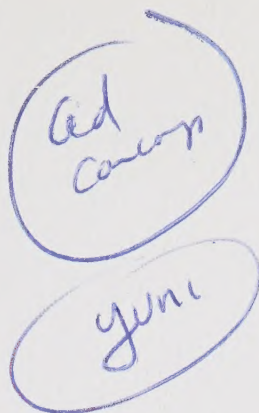



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United Canadian Shares Limited

ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31ST, 1977



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UNITED CANADIAN SHARES LIMITED

Board of Directors

JAMES H. ASHDOWN

CLARENCE E. ATCHISON

G. MONTEGU BLACK

JAMES M. DOWLER

THE HON. DOUGLAS D. EVERETT

ALAN G. HOWISON

WILLIAM L. PALK

CONRAD S. RILEY

J. DEREK RILEY

HARLEY B. VANNAN

Officers

President

CONRAD S. RILEY

Vice-President

CLARENCE E. ATCHISON

Treasurer

JOHN H. McCALLUM

Secretary

W. BURTON GRESHAM

Assistant Secretary

MURRAY J. HUTTON

Assistant Treasurer

RUDY WILLMS

SHARE TRANSFER AGENTS: Montreal Trust Company
Vancouver, Calgary, Winnipeg, Toronto, Montreal and Halifax

UNITED CANADIAN SHARES LIMITED

REPORT OF DIRECTORS

TO THE SHAREHOLDERS:

We present herewith the audited Balance Sheet and Statement of Income and Retained Earnings and the Auditors' Report for the year ended December 31, 1977.

As the Company owns all outstanding shares of The Canadian Indemnity Company we include the Directors' Report, audited Balance Sheet and Financial Statements and notes thereon of The Canadian Indemnity Company.

As outlined last year, The Canadian Indemnity Company is able to transfer by dividend to United Canadian Shares Limited an amount in excess of the amount that United Canadian Shares Limited may, under Anti-Inflation regulations, pay out to its shareholders. The amount retained and invested by United Canadian Shares Limited has increased over the year to \$680,000 from \$229,000. This fund will be further increased in 1978.

The rate of quarterly dividend declared payable in 1978 was increased to 14¢ per quarter from 12¢, being the maximum allowable under Anti-Inflation regulations.

There were no expenses charged to the Company during the year.

The net earnings for 1977, including the net earnings of Canadian Indemnity were \$6,374,000 compared to \$3,599,000 the previous year. This amounts to \$3.98 per share compared to last year's earnings of \$2.25 per share.

Mr. D. Steele Curry resigned from the Board in 1977. His contribution as a Director was appreciated. Mr. Alan G. Howison was appointed to the Board to fill the vacancy until the next Annual Meeting.

The Board of Directors appreciate the efforts of Management and Staff for their substantial accomplishments in 1977.

On behalf of the Board,

CONRAD S. RILEY,
President.

February 8, 1978.

UNITED CANADIAN SHARES LIMITED

BALANCE SHEET

As at December 31, 1977 and 1976

	1977	1976
ASSETS		
Cash and bank term deposits.....	\$ 115,881	\$ 229,041
Accrued interest	691	3,593
Dividends receivable	400,000	300,000
Stocks — at cost (Market value \$569,000) ..	564,524	—
Investment in subsidiary company (Note 1)	19,956,724	14,899,038
	<u>\$21,037,820</u>	<u>\$15,431,672</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Income taxes	\$ 4,718	\$ 4,431
Dividends declared payable	224,000	192,000
	<u>\$ 228,718</u>	<u>\$ 196,431</u>
Capital		
Authorized —		
12,000,000 shares of no par value		
Issued and fully paid —		
1,600,000 shares.....	\$ 1,532,562	\$ 1,532,562
Paid-in surplus	2,732,542	2,732,542
Retained earnings	16,543,998	10,970,137
	<u>\$20,809,102</u>	<u>\$15,235,241</u>
	<u>\$21,037,820</u>	<u>\$15,431,672</u>
ON BEHALF OF THE BOARD:		
CONRAD S. RILEY, <i>Director</i>		
HARLEY B. VANNAN, <i>Director</i>		

STATEMENT OF INCOME AND RETAINED EARNINGS

For the years ended December 31, 1977 and 1976

	1977	1976
INCOME		
Net investment income earned	\$ 26,736	\$ 8,688
Income and other taxes incurred.....	10,561	4,431
	<u>\$ 16,175</u>	<u>\$ 4,257</u>
Net income of		
The Canadian Indemnity		
Company (Note 1)	6,357,686	3,595,012
NET INCOME FOR THE YEAR	<u>\$ 6,373,861</u>	<u>\$ 3,599,269</u>
RETAINED EARNINGS —		
BEGINNING OF YEAR	10,970,137	8,090,868
	<u>\$17,343,998</u>	<u>\$11,690,137</u>
Dividends.....	800,000	720,000
RETAINED EARNINGS — END OF YEAR	<u>\$16,543,998</u>	<u>\$10,970,137</u>
NET INCOME PER SHARE	<u>\$3.98</u>	<u>\$2.25</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Basis

The investment in The Canadian Indemnity Company which is 100% owned is shown on the equity basis of accounting, the effect of which is to include in these financial statements the net income and retained earnings of the subsidiary company using statutory accounting practices permitted by the Department of Insurance (see note 1 to the financial statements of The Canadian Indemnity Company). The statutory accounting practices differ from generally accepted accounting principles followed by other types of business enterprises.

The principal differences include:

- (i) Certain assets such as automobiles, office furniture and leasehold improvements are written off as expenses in the year acquired.
- (ii) The cost of acquiring business such as agents' commission and premium taxes are written off in the year incurred rather than over the period expected to be benefited.
- (iii) The income tax charged against operations is determined using the taxes payable method and deferred income taxes are not recorded.

2. Anti-Inflation Legislation

The company is subject to restraint on dividends under the Federal Anti-Inflation Act. Dividends paid and declared during 1977 were in compliance with the Act.

FIVE YEAR INCOME RECORD

(excluding extraordinary items)

	1977	1976	1975	1974	1973
Net Income (Loss) ..	\$6,373,861	\$3,599,269	\$2,550,984	\$(942,507)	\$1,135,674
— Per share	\$3.98	\$2.25	\$1.59	(59¢)	71¢

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of United Canadian Shares Limited as at December 31, 1977 and the statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles except that insofar as the net income of The Canadian Indemnity Company is concerned, the accounting practices used are those permitted by the Department of Insurance applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND

Chartered Accountants

Winnipeg, January 31, 1978.

THE CANADIAN INDEMNITY COMPANY

Board of Directors

JAMES H. ASHDOWN
CLARENCE E. ATCHISON
G. MONTEGU BLACK
THE HON. DOUGLAS D. EVERETT
ALAN G. HOWISON
WILLIAM L. PALK
CONRAD S. RILEY
J. DEREK RILEY
HARLEY B. VANNAN

Officers

Chairman of the Board
Vice-Chairman of the Board
President
Vice-President Finance
Vice-President Underwriting
Vice-President Administration
Vice-President
*Vice-President and
United States Manager*
Secretary
Assistant Secretary
Controller

CONRAD S. RILEY
CLARENCE E. ATCHISON
HARLEY B. VANNAN
JOHN H. McCALLUM
GEORGE F. WATTS
JAMES M. DOWLER
W. CULVER RILEY

DANIEL J. ADLER
W. BURTON GRESHAM
MURRAY J. HUTTON
RUDY WILLMS

THE CANADIAN INDEMNITY COMPANY

REPORT OF DIRECTORS

TO THE SHAREHOLDERS:

The operations for the year 1977 were very satisfactory. The gross and net premiums were both at a record high whereas the incidence of loss was moderate, which led to underwriting earnings of \$8,330,000.

The gross premiums for 1977 were \$125,301,000 a 21% increase over the \$103,192,000 of the previous year. The increase was due to the effect of inflation on insurable values as well as an increase in policies written. Net premiums, after all reinsurance, were \$74,896,000. Arrangements have been made to reduce our present 15% Quota Share Reinsurance Treaty to 10% commencing July 1, 1978. This will increase our net written premiums relative to our gross premiums.

Net losses incurred for 1977 were \$36,825,000 compared to \$30,117,000 the previous year. The figure for losses incurred includes a realistic reserve for the effect of inflation on losses reported but yet to be settled.

The United States division, which in previous years was not meeting our expectations, showed marked improvement. The corrective measures introduced have brought us into a satisfactory underwriting position.

Ongoing inflation is a major problem in our industry. With this in mind, and having regard for the increase in business written, it was necessary to increase our reserve for losses incurred but not reported by a further \$3,500,000.

During the year the Directors recognized the effect of inflation on the purchasing power of present and future Company pension payments. To offset the erosion of the value of the dollar, the Company contributed an additional \$1,250,000 to the fund on a regulatory approved formula basis.

The statutory underwriting profit for our Canadian and United States operations combined was \$8,330,000 compared to \$2,957,000 in the previous year. This was indeed satisfactory but may be difficult to duplicate in the coming year due to increasing competition apparent in our markets.

As reported to you last year, our Company is subject to the Canadian Anti-Inflation legislation which controls profit margins and employee compensation. We believe at this time that in 1977 we exceeded allowable underwriting earnings by approximately \$225,000. Plans are now being developed to return this excess to policyholders in the coming year. The controls do not apply to earnings derived from operations in the United States, international management fees nor investment income attributable to equity.

There have been no further developments regarding British Columbia automobile insurance and we are still not in a position to compete on equal terms

with the Insurance Corporation of British Columbia. The Government of the Province of Quebec has announced it will enter the automobile insurance field to cover primarily bodily injury and property damage. This will reduce by one third the business written by the non-government insurance industry. We have established a reserve of \$500,000 to take care of the run-off of losses on contracts that will not be renewed. The Government of the Province of Ontario recently passed legislation which will require insurance companies to pay interest on Court awards from the date of the issuance of the Writ as opposed to date of settlement of the award; further, new legislation changes the liability test for a gratuitous passenger in an automobile from gross liability to ordinary negligence. Both these changes will tend to increase the cost of loss settlements.

Income from investments in 1977 was \$5,109,000 compared to \$3,870,000 the previous year. This reflects both increased yield on investments and an increase in the amounts invested. The Company continued to trade in securities during the year and accepted a book loss of \$289,000 in order to upgrade quality and yield. The Company carries a tax paid investment reserve of \$5,000,000 which at year end was \$2,873,000 more than required to meet Government authorized values established as at November 1, 1977. The actual market values of our securities at December 31, 1977 indicated an excess in reserve of \$2,969,000.

Management fees received from off-shore companies increased to \$555,000 from \$339,000 the previous year.

The combination of underwriting earnings, net investment income and management fees produced an operating income of \$13,705,000 compared to the previous year's operating income of \$6,975,000. Dividends were declared by the Company to its owner, United Canadian Shares Limited, in the amount of \$1,300,000 compared to \$1,050,000 the previous year. The result of the operating income less increase in unreported loss reserve of \$3,500,000 and income taxes of \$3,847,000 produced an increase in the Retained Earnings Account of \$5,058,000 which now totals \$18,435,000.

The Board of Directors recognize and appreciate the continuing efforts of Management and Staff to enhance the sound growth of the Company. 1978 will be an interesting year, and will require all to be alert to the changes in regulations, legislation, and market demands. We believe we have the staff to respond effectively.

On behalf of the Board,
CONRAD S. RILEY,
Chairman of the Board.
HARLEY B. VANNAN,
President and Chief Executive Officer.

February 8, 1978.

COMPARATIVE FINANCIAL HIGHLIGHTS

	1977	1976	1975	1974	1973
	000's				
Gross Premium Income	\$125,301	\$103,192	\$75,439	\$64,441	\$60,231
Underwriting Profit (Loss)....	8,330	2,957	703	(4,161)	(198)
Net Investment Income	5,109	3,870	3,141	3,070	2,583
Government License Fees, Taxes and Income Tax	7,145	4,073	2,735	1,567	1,798
Net Income (Loss)	6,358	3,595	2,551	(943)	2,096
Book Value of Bonds, Debentures and Stocks	77,931	56,629	45,334	38,486	38,643
Unearned Premium Reserve	27,136	23,599	17,620	16,288	17,945
Capital and Retained Earnings	19,935	14,877	12,332	11,809	14,604

INVESTMENT CLASSIFICATION

(Based on Book Value)

	1977		1976
	AMOUNT	PER CENT	PER CENT
Bank Term Deposits	\$ 9,300,000	10.7	16.6
Bonds and Debentures:			
Governments	40,931,672	46.9	39.4
Corporations	22,064,715	25.3	21.8
Preferred Stocks	7,203,706	8.2	11.9
Common Stocks	<u>7,730,983</u>	<u>8.9</u>	<u>10.3</u>
Total Investments	<u>\$87,231,076</u>	<u>100.0</u>	<u>100.0</u>

THE CANADIAN INDEMNITY COMPANY

BALANCE SHEET

As at December 31, 1977 and 1976

ASSETS	1977		1976	
Cash and bank term deposits.....	\$ 10,737,745		\$11,361,908	
Agents' balances and accounts receivable	17,701,223		15,926,663	
Accrued interest	994,236		729,356	
Investments (Note 2) (Market value \$75,900,000)				
Bonds and debentures — at amortized cost	\$62,996,387		\$41,597,652	
Stocks — at cost.....	14,934,689	77,931,076	15,031,485	56,629,137
Guaranteed investments with trust companies — at cost	380,000		465,000	
Office buildings and land — at cost....	\$ 1,354,592		\$ 1,354,592	
Accumulated depreciation	296,521	1,058,071	274,678	1,079,914
		<u>\$108,802,351</u>		<u>\$86,191,978</u>

LIABILITIES

Unearned premiums.....	\$27,136,135		\$23,599,290	
Losses in course of adjustment	30,511,467		23,001,757	
Reinsuring companies and other accounts payable	7,578,159		6,749,073	
Funds withheld under reinsurance treaties	4,193,526		3,625,991	
Income and other taxes	3,548,007		2,038,496	
Dividends declared payable	400,000	\$ 73,367,294	300,000	\$59,314,607
Reserves: Unreported losses	\$10,500,000		\$ 7,000,000	
Investments (Note 2).....	5,000,000	15,500,000	5,000,000	12,000,000

SHAREHOLDERS' EQUITY

Capital				
Authorized —				
50,000 Preferred Shares of a par value of \$100 each				
500,000 Common Shares of a par value of \$10 each				
Issued and fully paid —				
150,000 Common Shares	\$ 1,500,000		\$ 1,500,000	
Retained earnings	18,435,057	19,935,057	13,377,371	14,877,371
		<u>\$108,802,351</u>		<u>\$86,191,978</u>

ON BEHALF OF THE BOARD:
 CONRAD S. RILEY, *Chairman*
 HARLEY B. VANNAN, *President*

THE CANADIAN INDEMNITY COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS

For the years ended December 31, 1977 and 1976

UNDERWRITING ACCOUNT:	1977	1976
Gross premiums written.....	\$125,301,345	\$103,191,677
Reinsurance premiums paid	50,405,759	42,743,712
Net premiums written	\$ 74,895,586	\$ 60,447,965
Increase in unearned premiums	3,536,845	5,979,343
Net premiums earned.....	\$ 71,358,741	\$ 54,468,622
Net losses and adjustment expenses incurred	\$36,825,495	\$30,116,882
General operating expenses, including commission.....	22,906,554	18,701,844
Taxes, other than income taxes	3,297,125	2,692,711
Net underwriting profit	\$ 8,329,567	\$ 2,957,185
INVESTMENT ACCOUNT:		
Net investment income earned	\$ 5,109,175	\$ 3,869,725
Net loss from sale of investments	288,749	190,281
	4,820,426	3,679,444
OTHER INCOME:		
Fees on international management contracts	555,119	338,783
INCOME FROM OPERATIONS	\$ 13,705,112	\$ 6,975,412
DEDUCTIONS:		
Increase in reserve for unreported losses.....	\$ 3,500,000	\$ 2,000,000
Income taxes incurred	3,847,426	1,380,400
NET INCOME FOR THE YEAR	\$ 6,357,686	\$ 3,595,012
RETAINED EARNINGS – BEGINNING OF YEAR	13,377,371	10,832,359
	\$ 19,735,057	\$ 14,427,371
Dividends.....	1,300,000	1,050,000
RETAINED EARNINGS – END OF YEAR	\$ 18,435,057	\$ 13,377,371

THE CANADIAN INDEMNITY COMPANY

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the years ended December 31, 1977 and 1976

SOURCE:	1977	1976
Net insurance operations	\$19,154,849	\$13,787,091
Net investment income.....	4,245,241	3,400,339
Other income.....	555,118	338,783
Sale of investments	<u>9,607,596</u>	<u>4,961,000</u>
	\$33,562,804	\$22,487,213
APPLICATION:		
Purchase of investments.....	\$30,492,385	\$16,154,451
Income taxes	2,494,582	1,364,446
Dividends paid	<u>1,200,000</u>	<u>926,000</u>
	34,186,967	18,444,897
INCREASE (DECREASE).....	\$ (624,163)	\$ 4,042,316
FUNDS – BEGINNING OF YEAR	<u>11,361,908</u>	<u>7,319,592</u>
FUNDS – END OF YEAR	<u>\$10,737,745</u>	<u>\$11,361,908</u>

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The Canadian and British Insurance Companies Act was amended in 1977. While the amendments include some major changes in the financial reporting requirements of the annual statement which is filed with the Department of Insurance, these changes would have no adverse affect on the 1977 results as reported. These changes generally are aimed at bringing statutory reporting practices more in line with generally accepted accounting principles. Regulations detailing the changes have only recently been promulgated. Due to time constraints the financial statements in this report have been prepared using the accounting policies of prior years which were in compliance with the Act before amendment. It is the Company's intention to change its accounting policies in accordance with the new Act, in its 1978 fiscal year.

2. INVESTMENT RESERVE

The investment reserve of \$5,000,000 is unchanged during the year. This amount exceeds the difference between book values and values authorized by the Canadian Insurance Department by \$2,873,000. The reserve also exceeds the difference between book values and actual market values at December 31, 1977 by \$2,969,000.

3. OPERATIONS

In 1977 the amount of \$21,843 depreciation on office buildings was charged against income from operations. This is the same amount as was charged in 1976.

(continued top of next page)

In 1977 the Company paid fees of \$29,483 to the Directors and an aggregate remuneration of \$680,955 to senior officers, two of whom are Directors. The corresponding figures for 1976 were \$29,400 and \$458,490.

4. FOREIGN CURRENCY

United States dollar amounts have been included in these statements at par with the Canadian dollar.

5. ANTI-INFLATION LEGISLATION

Effective April 16, 1976 the Canadian Indemnity Company became subject to Federal Anti-Inflation legislation which places restrictions on profit margins and employee compensation. The controls do not apply to the United States business of the Company.

The Company has complied with the relevant requirements of the Federal Anti-Inflation legislation and supporting regulations. However, the Company estimates that it has excess revenue in respect of its 1977 operations of approximately \$225,000. The Company will file a compliance plan to deal with this excess revenue in 1978.

AUDITORS' REPORT TO THE DIRECTORS AND SHAREHOLDERS

We have examined the balance sheet of The Canadian Indemnity Company as at December 31, 1977 and the statements of income and retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the source and application of its funds for the year then ended, in accordance with accounting practices permitted by the Department of Insurance applied on a basis consistent with that of the preceding year.

Winnipeg, January 31, 1978.

COOPERS & LYBRAND
Chartered Accountants

THE CANADIAN INDEMNITY COMPANY

OFFICES

CORPORATE HEAD OFFICE

Winnipeg, R3C 1C3, 333 Main St.

EXECUTIVE OFFICE

Toronto, M5J 2J1, P.O. Box 26
Royal Bank Plaza

BRANCH OFFICES CANADA

Halifax, 1809 Barrington St.
Montreal, 625 Dorchester Blvd. W.
Toronto, 85 Richmond St. W.
Winnipeg, 333 Main St.
Calgary, 324-8th Ave. S.W.
Edmonton, Edmonton Centre
Vancouver, 1477 W. Pender St.
Victoria, 1175 Douglas St.

SERVICE OFFICES CANADA

Quebec, 930 Ste. Foy Rd.
Hamilton, 100 King St. W.
London, 383 Richmond St.
North Bay, 222 McIntyre St. W.
Ottawa, 130 Albert St.

UNITED STATES HEAD OFFICE

Los Angeles, 675 S. Park View St.

BRANCH OFFICES UNITED STATES

Los Angeles, 2500 Wilshire Blvd.
San Francisco, 340 Pine St.
Seattle, 2200 Sixth Ave.

SERVICE OFFICES UNITED STATES

OREGON:
Portland, 4800 S.W. Macadam Ave.

CALIFORNIA:
San Diego, 3443 Camino Del Rio S.
Long Beach, 4220 Long Beach Blvd.
San Jose, 1975 Hamilton Ave.
Burbank, 4405 Riverside Drive
Tustin, 17782 East 17th St.
San Bernardino, 505 N. Arrowhead Ave.
Fresno, 5150 N. Sixth St.



Canadian Indemnity

*This is the advertising symbol of
The Canadian Indemnity Company,
our wholly owned subsidiary company.*